

An Analysis of Indian Microfinance Institutions' Performance

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Abstract

In a country like India where 70 percent of its population lives in rural area and 60 percent depend on agriculture (according to the World Bank reports), micro-finance can play a vital role in providing financial services to the poor and low income individuals. Micro-finance is regarded as a useful tool for socio-economic up-liftment in a developing country like India. It is expected to play a significant role in poverty alleviation and development. The emphasis of present paper is to study the performance and role of microfinance institutions in the development of India. The study revealed that the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 increased from 9.8 per cent to 257.6 per cent. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year. The loan outstanding against MFIs increased all the subsequent years. It increased by 13.7 per cent and 14.3 per cent in 2015-16 and 2016-17. It is further found that the business models of MFIs in India are becoming urban centric as is indicated by the fact that the share of rural client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17%). The proportion of income generation loan remained same during year 2015 and it increased up to 94 percent in the year 2017. The indicators relating to overall financial structures such as Return on assets and Return on equity, capital adequacy ratio have increased over this period and found sharp decline in total assets of MFIs.

Keywords: Microfinance, MFI's, Growth of Microfinance, Poverty

1. INTRODUCTION

Microfinance is not a new concept. It dates back in the 19th century when moneylenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson and Rogaly, 1997).

According to the records of World Bank, India falls under low income class. It is second populated country in the world. 70 percent of its population lives in rural area. 60% of people depend on agriculture; as a result, rate of underemployment is high. Rural people

have very low access to institutionalized credit (from commercial bank). Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio-economic development. Hence Microfinance can play a vital role for improving the standard of living of poor. In India, the beginning of microfinance movement could be traced to Self Help Group (SHG) – Bank Linkage Programme (SBLP) started as a pilot project in 1992 by NABARD. This programme proved to be very successful and has also developed as the most popular model of microfinance in India. The regulatory framework for microfinance in India is not unified. Microfinance is provided by commercial banks, Regional Rural Banks (RRBs), the SHG's, cooperative societies and institutions (MFIs) that take various forms, including those of NGO's and

Non-Bank Financial Institutions (NBFI's). Banks and NBFI's are governed by the Reserve Bank of India (RBI), SHGs are regulated by NABARD, and the cooperatives are governed by Registrar of Cooperative Societies (RCS) etc

2. REVIEW OF LITERATURE

Kumar Vipin et. al. (2015) study concluded that

the SHG's and MFI's are playing a vital role in delivery of microfinance services which leads development of poor and low income people in India. However, slow progress of graduation of SHG members, poor quality of group functioning, dropout of members from groups etc., have also been reported various study findings in different parts of the country, which need to be taken into account while designing the road map for the next phase of the SHG programme.

Nikita (2014) study concludes that first time in the year 2012-13 after the launch of SHGs BLP there is a decline in the number of SHGs who's saving linked with banks. The study also finds out there was growth in the loan outstanding of SHG and which was responsible for increases in NPAs. At last it is found out that the major share belongs to commercial banks

when the agency wise loan issued to MFI. He suggested that steps should be taken to improve the performances of programs launched under Microfinance time to time.

Mahanta et. al. (2012) Study revealed that lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation. But it must be bundled with capacity building programs. Government cannot abdicate its responsibility of social and economic development of poor and downtrodden. The absence of any special skills with the clients of microcredit, the fund is being used in consumption and procurement of

non-productive assets.

Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non-agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with

Post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation.

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in takeoff stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin.

Idowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. The fundamental objective of this study is to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria. Simple random sampling technique was employed in selecting the

100 SMEs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage. Other than tax incentives and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions to support SMEs in Nigeria.

3. SIGNIFICANCE OF THE STUDY

At least in India, there does not seem to be any working model of analyzing the financial performance and thereby sustaining of microfinance institutions. This problem is compounded by the lack of a committed legislation on working and management of microfinance institutions. The lack of a regulatory mechanism for financial disclosures by microfinance institutions also abets the problem. The present study is an attempt to study the importance of microfinance and to analyse the performance of microfinance institutions operating in India. It assumes significance because it is imperative that these institutions be run efficiently given the fact that they are users of marginal and scarce capital and the intended beneficiaries are the marginalized sections of society. MFIs must be able to sustain themselves financially in order to continue pursuing their lofty objectives, through good financial

performance.

4. METHODOLOGY AND DATA

Research design is partly descriptive, partly exploratory. The data for the present study was collected from different sources. To assess the performance of the microfinance institutions in India, the relevant information relating to loans disbursed, loan outstanding, client outreach, assets, etc. were collected from Status of Micro Finance in India, NABARD report (various issues), The Bharat Microfinance Report (various issues) and other relevant sources for the period 2012-13 to 2016-17. Simple statistical tools like averages, percentage, etc were used to derive the inferences of the study.

5. OBJECTIVES OF THE STUDY

1. To understand the concept and delivery models of microfinance in India.
2. To study the role and importance of microfinance in India.
3. To examine the current status and performance of microfinance institutions in India.

6. CONCEPT OF MICROFINANCE

Microfinance enables the poor and excluded section of people in the society who do not have an access to formal banking to build assets, diversity livelihood options and increase income, and reduce their vulnerability to economic stress. In the past, it has been experienced that the provision for financial products and services to poor people by MFIs can be practicable and sustainable as MFIs can cover their full costs through adequate interest spreads and by operating efficiently and effectively.

Microfinance is not a magic solution that will propel all of its clients out of poverty. But various impact studies have demonstrated that microfinance is really benefiting the poor households (Littlefield and Rosenberg, 2004). The Asian Development Bank (2000) defines microfinance as the provision of broad

range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises. This definition of microfinance is not restricted to the below poverty line people but it includes low income households also. The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as “ the provision of thrift, saving, credit and financial services and products of very small amount to the poor’sin rural, semi urban andurbanareasfor enabling them to raise their income level and improve their standard of living.” (Sen, 2008) .

Microfinanceisdefinedasadevelopmentto olthatgrantsorprovidesfinancialservicesand productssuch as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionallypoorinexpandingor establishingtheirbusinesses (Robinson,1998).Inadditiontofinancial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are; Non Governmental Organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bankingfinancial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

FeaturesofMicrofinance

- Itisanessentialpartofruralfinance.
- Itdealsinsmallloans.
- Itbasicallycaterstothe poorhouseholds.
- ItisoneofthemosteffectiveandwarrantedPovertyAlleviationStrategies.
- Itsupportswomenparticipationinelectronicactivity.

- Itprovidesanincentivetograbtheselfemploymentopportunities.
- Itismoreservice-orientedandlessprofitoriented.
- Itismeanttoassistsmallentrepreneurandproducers.
- Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing. Microfinanceisabroadcategoryofservices, whichincludesmicrocredit.Microcreditisp rovisionof credit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a small amount of money, given as a loan by a bank or anylegallyregistered institution, whereas, Micro-finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. for poor people.

EVOLUTIONOFMICROFINANCEININDIA

TheevolutionofIndianMicrofinancesectorcanbebroadlydividedintofourdistinctphases:

Phase1:TheCooperativeMovement(1900-1960)

During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase2:SubsidizedSocialBanking(1960s-1990)

With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about thecredibilityof micro borrowers amongbankers, thus furtherhindering access to bankingservices for the low-income people.

Phase3:SHG-BankLinkageProgramandGrowthofNGO-MFIs(1990-2000)

The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiated a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates. The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

Phase4:CommercializationofMicrofinance

The First Decade of the New Millennium Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line. On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated legal entities such as Non-Banking Finance Companies (NBFCs) to attract commercial investment. The microfinance sector as it exists today essentially consists of two predominant delivery models the SBLP and MFIs. Four out of five microfinance clients in India are women.

MICROFINANCE DELIVERY MODELS IN INDIA

The non-availability of credit and banking facilities to the poor and

underprivileged segments of the society has always been a major concern in India. The Government and the Reserve Bank have taken several initiatives, from time to time, such as nationalisation of banks, prescription of priority sector lending norms and concessional interest rate for the weaker section of society. It was, however, realised that further direct efforts were required to address the credit needs of poor people. In response to this requirement, the Micro finance movement started in India with the introduction of SHG bank linkage programme (SBLP) in the early 1990s. At present, there are mainly two models for delivery of Microfinance in India:

1. SHG-Bank Linkage Programme (SBLP)

ASHG is a small group of about 10-20 persons from a homogeneous class of rural and urban poor which promoted savings among members and used these resources for meeting their credit needs. The group is democratically formed and elects its own leaders. The vital features of SHGs are it consists of members belonging to the same community or society and having common economic goal. In this model, the informal SHGs are credit linked with the formal financial institutions. The SHG-Bank Linkage Model has emerged as a dominant model in terms of number of borrowers and loans outstanding. This model is flexible, independence creating, and imparts freedom of saving and borrowing according to the requirements of group members. Due to widespread rural bank branch network, the SHG-BLM is very suitable to the Indian context. Microfinance movement started in India with the introduction of SHG-Bank Linkage Programme (SHG BLP). The programme uses SHGs as an intermediation between the banks and the rural poor to help in reducing transaction costs for both the banks and the rural clients. Banks provide the resources and bank officials/NGOs/ government agencies organise the poor in the form of SHGs. Under this programme, loans are provided to the SHGs with three different

methodologies:

- **Model I:** SHGs Formed and Financed by Banks: In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans.
- **Model II:** SHGs Formed by Agencies Other than Banks, but Directly Financed by Banks: In this model, NGOs and other formal agencies in the field of microfinance facilitate organising, forming and nurturing of SHGs and train them in thrift and credit management. The banks directly give loans to these SHGs.
- **Model III:** SHGs Financed by Banks Using Other Agencies as Financial Intermediaries: This is the model where the NGOs take on the additional role of financial intermediation along with the formation of group. In areas where the formal banking system faces constraints, the NGOs are encouraged to form groups and to approach suitable bank for bulk loan assistance. This method is generally used by most of the NGOs having small financial base.

2. Micro Finance Institutions (MFIs)

The MFI model has also gained momentum in India in the recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either

individually or through the group mechanism against a mutual guarantee. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Cooperatives registered under the Mutually Aided Cooperative Societies Acts of the States; and nonbanking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities.

7. ROLE AND IMPORTANCE OF MICROFINANCE

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living. Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

- **Credit to Rural Poor:-** Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.
- **Poverty Alleviation:-** Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.
- **Women Empowerment:-** Normally more than 50% of SHGs are formed by

women. Now they have greater access to financial and economical resources.

It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

• **Economic Growth:-** Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

• **Mobilisation of Savings:-** Microfinance develops saving habits among people. Now poor people with meager income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

• **Development of Skills:-** Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

• **Mutual Help and Co-operation:-** Microfinance promotes mutual help and co-operation among members. The collective effort of group promotes economic interest and helps in achieving socioeconomic transition.

• **Social Welfare:-** With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

8. DATA ANALYSIS AND DISCUSSION

Table 1: Progress under MFI-bank linkage Programme (Amount in crore)

Year Particular	2012-13		2013-14		2014-15		2015-16		2016-17	
	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.
Loan Disbursed by Banks/FI to MFIs	426 (-8.4)	7840 (50.6)	545 (28.0)	10282 (31.2)	589 (8.1)	15190 (47.7)	647 (9.8)	20796 (36.9)	2314 (257.6)	19304 (-7.2)
Loan O/S against MFIs on 31st March	2042 (4.2)	14426 (26.0)	2422 (18.6)	16517 (14.5)	4662 (42.5)	22500 (36.2)	2020 (56.7)	25581 (13.7)	5357 (165.2)	29225 (14.3)
Fresh Loans as % to loans O/S		54.3		62.3		148.13		123.0		151.4

Source: NABARD, Status of Microfinance in India Report, 2012 to 2017.

Table 1 presented progress under MFI-Bank linkages programme. The number of MFIs availing loans from banks during the year 2012-13 decreased over the respective previous year. The number of MFIs availing loans from the banks during the year 2013-14 increased by 28 percent over the year 2012-13.

However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 over the previous year.it increased from 9.8 per cent to 257.6 per cent.

The total loans to MFIs by banks increased during 2012-13, 2013-14, 2014-15 and 2015-16 over the previous year respectively. It increased by about 50.6, 31.2, 47.7 and 36.9 per cent. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year.

The loan outstanding against MFIs increased all the subsequent years over their previous years. It increased by 13.7 and 14.3 per cent in 2015-16 and 2016-17 over the previous year. The fresh loan as percentage toloanoutstandinghas beenincreased all thesubsequent years over theprevious year. Thus it is clear that MFIs gaining confidence of clients as well as with the lending institutions.

Table2: Outreach of MFIs across States/UTs (in lakh)

States/UT	2017	2016	Growth in %
Karnataka	68.33	75.28	-9 %
Tamil Nadu	32.25	57.22	-44%
Uttar Pradesh	29.82	39.36	-24%
Odisha	22.94	23.52	-2%
Bihar	22.57	23.93	-6%
Maharashtra	21.33	38.57	-45%
West Bengal	21.16	24.91	-15%
Madhya Pradesh	20.53	28.19	-27%
Assam	7.73	6.84	13%
Kerala	7.42	12.23	-39%
Rajasthan	6.28	8.20	-23%
Jharkhand	6.21	6.75	-8%
Punjab	5.46	6.26	-13%
Chhattisgarh	5.35	8.36	-36%
Gujarat	4.6	12.63	-64%
Haryana	3.83	5.98	-36%
Telangana	2.59	2.95	-12%
Uttarakhand	1.92	3.22	-40%
Delhi	1.15	2.52	-54%
Andhra Pradesh	1.04	7.27	-86%
Manipur	0.73	0.88	-16%
Mizoram	0.57	0.65	-12%
Tripura	0.43	1	-58%
Puducherry	0.28	1.27	-78%
Arunachal Pradesh	0.19	0.17	9%
Himachal Pradesh	0.13	0.49	-73%
Meghalaya	0.12	0.19	-36%
Sikkim	0.11	0.28	-59%
Goa	0.07	0.13	-47%
Nagaland	0.04	0.04	10%
Jammu & Kashmir	0.03	0.02	17%
Chandigarh	0.02	0.13	-82%
Andaman	0.02	0.01	267%
Total	295	399	

Source: Bharat Microfinance Report 2016-17.

Client outreach in various states is presented in Table 2. Out of total client's base of 295 lakh in 2017, Karnataka state contributed highest number of clients base (23.16%) followed by Tamil Nadu (10.93%),

Uttar Pradesh (10.11%), Odisha (7.78%), Bihar (7.65%), West Bengal (7.17%), M.P. (6.96%) etc. The contribution of Chandigarh, Jammu & Kashmir and Andaman was least (0.01%).

Comparison of client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17%), Assam (13%), Nagaland (10%), and Arunachal Pradesh (9%). The highest decline was in Andhra Pradesh (86%) followed by Chandigarh (82%), Puducherry (78%) and Gujarat (64%), etc. The least decline was in Odisha (2%). Exclusion of six small finance banks (SFBs) is the reason for the decrease in client outreach in most of the states.

Table 3: Rural and Urban Share of MFI Borrowers

Year	Rural	Urban	Total
2013	184 (67)	91 (33)	275 (100)
2014	185 (56)	145 (44)	330 (100)
2015	122 (33)	249 (67)	371 (100)
2016	152 (38)	247 (62)	399 (100)
2017	180 (61)	115 (39)	295 (100)

Source: Bharat Microfinance Report 2016-17

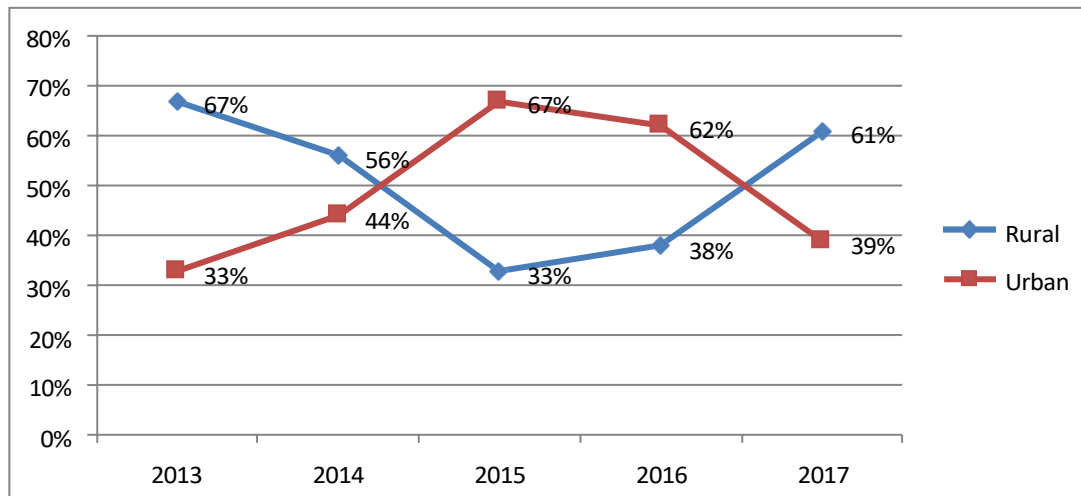


Figure 1: Trends in Rural and Urban Share of MFI Borrowers

Rural-urban distribution of MFI borrowers is shown in Table 3 and figure 1. Indian microfinance was basically considered as a rural phenomenon. The share of rural clientele was 67 per cent in 2013 which decreased to 56 per cent in 2014 and has drastically reduced to 33% in 2015. During the next year i.e. in 2016 the share of rural client slightly increased to 38 per cent. It is first time that urban client base outpaced rural client base. However, in the next year i.e. in the year 2017, significant improvement was noticed in the share of rural client which increased to 61 percent. In 2017, the trend of rural to urban is

the reverse of trend of 2016 because of exclusion of 6 SFBs. One of the key finding from this study shows that small sized of MFIs are rural centric.

Purpose of Loan

Traditionally, MFIs have been lending for both consumption and productive purposes. It is believed that poor people use their loans for their emergency and consumption needs more than for livelihoods. In 2015, RBI regulation stipulated that a minimum of 50% of the MFI loans are to be deployed for income generating activities.

Table 4: Income generation loans and non-income generation loans (Rscore)

Year	Income generation loan	Non income generation loan	Total
2013	23474.36 (91)	2321.64 (9)	25796 (100)
2014	30846.4 (80)	7711.6 (20)	38558 (100)
2015	47129.6 (80)	11782.4 (20)	58912 (100)
2016	68004.3 (94)	4340.7 (6)	72345 (100)
2017	44579.95 (85)	7867.05 (15)	52447 (100)

Source: Bharat Microfinance Report 2016-17

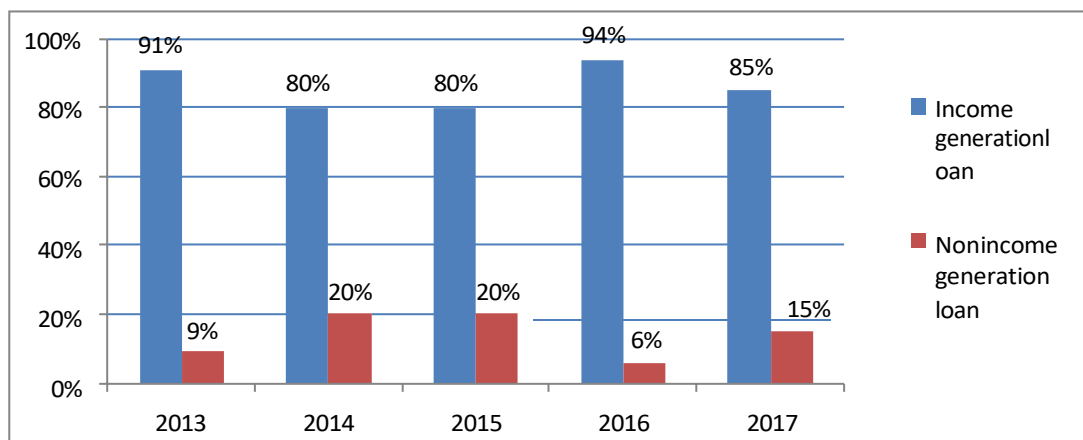


Figure 2: Income generation loans and non-income generation loans

Table 4 and figure 2 shows that the proportion of income generation loan was 91 percent during the year 2013 which reduced to 80 per cent during the year 2014. The proportion of income generation loan remained same during the next year i.e. 2015. During the year 2016 it increased up to 94 per cent. In the year 2017 the proportion of income generation loan to non-income generation loan is 85:15.

Agriculture, animal husbandry and trading are major sub-sectors where income generation loans are deployed. Non-income generation loans are used for consumption, housing, education, water & sanitation, health, etc. A high 31 percent of the total income generating loan was disbursed for trading and small business followed by agriculture 30 per cent and animal husbandry (22 %). The rest of the proportion of income generating loan was disbursed to transport, cottage, handicraft and other activities.

Table5:AssetswithMFIsovertheyears

Year	Assets
2011	22736
2012	24240
2013	28051
2014	36125
2015	51564
2016	58621
2017	47247

Source:NABARD,StatusofMicrofinanceinIndiaReport,2012to2017.

Total assets of MFIs are presented in Table 4. The total assets with the MFIs was Rs. 22,736 crore in 2011 which continuously increased over the years and reached to Rs. 58621 crore in 2016. Total assets of MFIs have seen a consistent growth trend over last 6 years from 2011 to 2016 but in 2016-17, there is a sharp decline of 21 per cent. The assets of an MFI comprise mostly of its net loan portfolio. The net loan portfolio alone of reporting MFIs was about 73 per cent of the total assets at the end of the year 2016-17. Cash and cash equivalents with 19 per cent share occupied the second position. Cash and cash equivalents are at this level mainly because most MFIs receive debt funding largely towards the very end of the year while it can be lent to the clients only at the beginning of next year. Next major component of assets is trade and other receivables with 7 per cent share in total assets of the MFIs. The share of net fixed assets is just 1 per cent in total assets of the MFI.

Table6:PerformanceindicatorofMFIsModelinIndia

Particular	2016	2017
Client outreach (Lakhs)	399	295
Women client (%)	97%	96%
Gross O/S Portfolio (crore)	63853	46842
Average loan per borrower (crore)	11425	12751
Income generation loan (%)	94%	85%
Margin (%)	10%	8.08%
ROA (%)	2.20%	2.4%
ROE (%)	11.60%	13.31%
OSS (%)	113%	114%
CAR (%)	19.39%	21.13%
NPA (%)	0.15%	0.69%

Source: Bharat Microfinance Report 2016-17

Table 6 presented an overall performance of microfinance institutions during the year 2016 and 2017. The table shows that the client outreach reduced by 26 per cent in 2017, over 2016. However, the percentage of women's outreach also decreased from 97 per cent to 96 per cent. The gross outstanding portfolio has decreased from Rs. 63,853 crore to Rs. 46,842 crore, i.e. by about 27 per cent during this period in 2017 over 2016 whereas average loan per borrower has shown upward movement during this period, i.e. average loan per borrower has increased by 11.60 per cent during this period. Out of total loans the proportion of income-generating loan was 94 per cent in 2016 which decreased to 85 per cent in 2017. The indicators relating to overall financial structure such as Return on assets and Return on equity, capital adequacy ratio have increased over this period. The average OSS of the Indian MFIs has increased from 113 per cent in 2016 to 114 per cent in 2017. Operational self-sufficiency measures the ability of an MFI to meet all its operational and financial costs out of its income from operations. The profit margin has also

declined from 10 per cent in 2016 to 8.08 per cent in 2017. Non-performing assets increased during this period from 0.15 per cent to 0.69 per cent.

MAJOR FINDINGS

- MFIs availing loans from the banks during the year 2013-14 increased by 28 per cent over the year 2012-13. However there is substantial increase in the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 over the previous year. It increased from 9.8 per cent to 257.6 per cent.
- The total loans to MFIs by banks increased during 2012-13, 2013-14, 2014-15 and 2015-16 over the previous year respectively. It increased by about 50.6, 31.2, 47.7 and 36.9 per cent. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year.
- The loan outstanding against MFIs increased all the subsequent years over their previous years. It increased by 13.7 and 14.3 per cent in 2015-16 and 2016-17 over the previous year. The fresh loan as percentage to loan outstanding has been increased all the subsequent years over the previous year.
- The client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17%), Assam (13%), Nagaland (10%), and Arunachal Pradesh (9%). The least decline was in Odisha (2%). Exclusion of six small finance banks (SFBs) is the reason for the decrease in client outreach in most of the states.
- The share of rural clientele was 67 per cent in 2013 which decreased to 56 per cent in 2014 and has drastically reduced to 33% in 2015. In the next year i.e. in 2016 the share of rural client slightly increased to 38 per cent. In 2017, the trend of rural to urban is the reverse of trend of 2016 because of exclusion of 6 SFBs. One of the key findings from this study shows that small sized MFIs are rural centric.
- The proportion of income generation loan remained same during the next year i.e. 2015. During the year 2016 it increased up to 94 per cent. In the year 2017 the proportion of income generation loan to non-income generation loan is 85:15.
- The total assets with the MFIs was Rs. 22,736 crore in 2011 which continuously increased over the years and reached to Rs. 58,621 crore in 2016. Total assets of MFIs have seen a consistent growth trend over last 6 years from 2011 to 2016 but in 2016-17, there is a sharp decline of 21 per cent.
- The indicators relating to overall financial structure such as Return on assets and Return on equity, capital adequacy ratio have increased over this period. The average OSS of the Indian MFIs has increased from 113 per cent in 2016 to 114 per cent in 2017. Operational self sufficiency measures the ability of an MFI to meet all its operational and financial costs out of its income from operations. The profit margin has also declined from 10 per cent in 2016 to 8.08 per cent in 2017. Non-performing assets increased during this period from 0.15 per cent to 0.69 per cent.

CONCLUSION

The importance of microfinance in the developing countries like India can not be undermined it plays a vital role for socio-economic upliftment of poor and low income peoples. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio-economic development.

Hence Microfinance can play a vital role for improving the standard of living of poor. The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well-developed financial system promotes investment opportunities in an economy. Therefore it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth. The functioning of Microfinance institutions in India is playing an important role in rural areas since last two decades. The central government and RBI should take necessary measurements to sustain the growth of the microfinance sector in India. The concern state governments also take necessary measurements to create awareness among people to use the services of Microfinance institutions to strengthen their Economic status and improve their livelihood.

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